

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
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R 272018Z FEB 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5159
INFO ALL EC CAPITALS
USMISSION GENEVA
AMEMBASSY HELSINKI
AMEMBASSY STOCKHOLM
AMEMBASSY OSLO
AMEMBASSY OTTAWA

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USEEC

PARIS ALSO FOR OECD

GENEVA ALSO FOR MTN

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SUBJ: EC COMMISSION POLICY TOWARDS PAPER INDUSTRY

REF: 77 BRUSSELS 9909

1. BEGIN SUMMARY: AT A RECENT MEETING WITH COMMUNITY
PULP AND PAPER PRODUCERS, EC INDUSTRIAL AFFAIRS COM-
MISSIONER DAVIGNON PROMISED TO INVESTIGATE THE PROBLEMS OF
THE PAPER INDUSTRY, TO CONTINUE THE INVESTIGATION OF
ANTI-DUMPING COMPLAINTS NOW IN PROGRESS AND TO PRESS FOR
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COUNCIL APPROVAL OF COMMISSION PROPOSALS ON WASTE PAPER
RECYCLING AND REFORESTATION. DAVIGNON FENDED OFF PRO-
DUCER DEMANDS THAT TRADE LIBERALIZATION IN PAPER
PRODUCTS WITH EFTA BE REVERSED, AND THAT THE PAPER, FIBER-
BOARD, AND PULP SECTORS BE CLASSED AS EXCEPTIONS IN THE
MTN. A JOINT WORKING GROUP OF COMMISSION AND PAPER
INDUSTRY OFFICIALS WILL PREPARE AN ANALYSIS OF THE

PROBLEMS FACING THE INDUSTRY. CHIEF AMONG THESE PROBLEMS ARE THE PROTRACTED CYCLICAL DEPRESSION, OVERCAPACITY, AND DEMAND-REDUCING EFFICIENCIES OF USE. COMMISSION OFFICIALS ADMIT THAT MANY OF THE INDUSTRIES' STRUCTURAL PROBLEMS ARE DUE TO PAST PROTECTIONISM AND NOTE THAT SOME MEMBER STATES WOULD OPPOSE A BROAD SECTORAL POLICY FOR THE INDUSTRY. END SUMMARY.

2. THE EC COMMISSION IS STRUGGLING WITH THE PROBLEM OF DEFINING A LONG-TERM POLICY FOR THE PAPER INDUSTRY WHICH WILL TAKE ACCOUNT OF THE FARREACHING TRANSFORMATION WHICH THE INDUSTRY HAS UNDERGONE IN THE LAST FEW YEARS.

3. AS A RESULT OF A RECENT MEETING BETWEEN COMMISSIONER DAVIGNON AND OFFICIALS OF THE EUROPEAN CONFEDERATION OF PULP, PAPER AND BOARD INDUSTRIES (CEPAC), A JOINT CEPAC/ COMMISSION WORKING GROUP WAS SET UP TO EXAMINE THE INDUSTRIAL AND MARKET STRUCTURE OF THE SECTOR. THE PURPOSE OF THE GROUP IS TO PROVIDE THE STATISTICAL AND CONCEPTUAL UNDERPINNING FOR DEALING WITH THE PRESENT CRISIS AND STRUCTURAL CHANGES WHICH THREATEN THE FUTURE OF THE EC PAPER INDUSTRY.

4. CEPAC HAS BEEN ARGUING FOR ABOUT A YEAR THAT HIGH LABOR COSTS, SLOW DEMAND GROWTH, AND DECREASING CAPITAL PRODUCTIVITY ARE PLACING THE EC INDUSTRY IN AN INCREASED OFFICIAL USE

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INGLY UNFAVORABLE POSITION RELATIVE TO OTHER MAJOR PRODUCERS (REFTEL). CEPAC HAS ASKED THE COMMISSION TO ADOPT A STRONG SECTORAL POLICY FOR PULP AND PAPER, TO DELAY THE IMPLEMENTATION OF AGREEMENTS WITH EFTA TO LIBERALIZE TRADE IN PAPER PRODUCTS, AND TO OPPOSE ANY FURTHER INTERNATIONAL TRADE CONCESSIONS, NOTABLY IN THE MTN, FOR THESE PRODUCTS.

5. COMMISSION OFFICIALS FEEL THAT THE THREE-YEAR DECLINE OF THE INDUSTRY HAS BOTH CYCLICAL AND STRUCTURAL CAUSES, BUT THAT THE LATTER ARE MORE IMPORTANT. THE MARKET FOR PAPER PRODUCTS DROPPED SHARPLY WITH THE LEVEL OF GENERAL ECONOMIC ACTIVITY IN 1974, REBOUNDED SOMEWHAT IN 1975, BUT IS NOT EXPECTED TO REGAIN ITS PREVIOUS HIGHS UNTIL THE 1980S. HOWEVER, THE STRONG GROWTH FOR THE 1960'S FOLLOWED BY THE UNUSUALLY DEEP AND PROLONGED RECESSION HAS PRODUCED A NUMBER OF RESPONSES FROM USERS AND MANUFACTURERS WHICH ARE EXPECTED TO ALTER THE HISTORICAL GROWTH TREND EVEN WHEN GENERAL ECONOMIC ACTIVITY IN EC MARKETS PICKS UP.

6. IN PARTICULAR, THE BOOM YEARS LED TO SUPPLY SQUEEZES

AND HIGH PRICES WHICH INDUCED HIGH RATES OF INVESTMENT
IN THE EARLY 1970'S - INVESTMENT WHICH CAME ONTO THE
MARKET JUST AS THE SLUMP WAS BEGINNING.

7. THE ECONOMICS OF USE ALSO HAVE AFFECTED DEMAND. THERE
HAS BEEN AN INCREASED USE OF RECYCLED WASTE PAPER AND OF
CLAY AND OTHER FILLERS. MOST IMPORTANT, IMPROVEMENTS IN
THE TECHNOLOGY OF PAPER-MAKING HAVE RESULTS IN A MUCH
MORE EFFICIENT USE OF FIBER. THESE IMPROVEMENTS WERE A
RESPONSE TO THE FIBER SHORTAGE UP TO 1974 AND HAVE BEEN
INTENSIFIED BY THE NEED FOR GREATER ECONOMIES DURING THE
CURRENT ECONOMIC SLUMP. THE NEW EFFICIENCIES IN PRODUC-
TION HAVE HIT THE PULP MANUFACTURERS IN FRANCE, THE FRG,
ITALY, AND THE UK VERY HARD,BUT THEY HAVE ALSO HAD AN

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IMPACT ON PAPER MANUFACTURERS. THE PROFITS ACCRUING TO
PAPER-MAKERS FROM CHEAPER PULP WERE SHORT-LIVED SINCE
DISTURBANCES IN THE PULP MARKET TEND TO SPILL OVER INTO
THE PAPER MARKET.

8. AS A RESULT OF THESE CHANGES IT IS ESTIMATED THAT WHEREAS FORMERLY A ONE PERCENT INCREASE IN ECONOMIC ACTIVITY PRODUCED A 1.5 PERCENT JUMP IN DEMAND FOR PAPER, NOW ONLY A .7 PERCENT GROWTH WOULD RESULT. AT THAT RATE, GIVEN COMMISSION GDP GROWTH ESTIMATES, ONLY ABOUT A THREE PERCENT LONG-TERM GROWTH RATE CAN BE EXPECTED. THIS COM-
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PAIRES WITH SEVEN PERCENT DURING THE 1960'S AND EARLY 1970'S.

9. COMMISSION OFFICIALS DO NOT FEEL THAT A COMPREHENSIVE POLICY TO RESTRUCTURE THE PAPER INDUSTRY IS CALLED FOR. THEY INTEND, HOWEVER, TO ATTEMPT TO PERSUADE COMPANIES TO HOLD DOWN FURTHER CAPACITY INCREASES UNTIL THE ECONOMIC SITUATION IMPROVES AND TO REFUSE TO ALLOW STATE AIDS TO THE INDUSTRY WHICH WOULD SHIFT THE BURDEN OF THE CRISIS TO OTHER MEMBER STATES. OFFICIALS ARE NOT CONVINCED THAT FURTHER INTEGRATION OF THE INDUSTRY WOULD NECESSARILY BE A PLUS. INCREASINGLY, EC FIRMS ARE LIKELY TO FIND THEIR COMPETITIVE ADVANTAGE IS IN THE MORE SPECIALIZED PAPER PRODUCTS AND IT IS THEREFORE NOT OBVIOUS THAT MERGERS OR VERTICAL INTEGRATION WOULD OFFER SIGNIFICANT ECONOMIES TO PRODUCERS.

10. THE COMMISSION RECOGNIZES THAT MUCH OF THE PROBLEM LIES WITH INEFFICIENCIES WHICH HAVE DEVELOPED FROM A PROTRACTED PERIOD OF PROTECTION AND THAT A CERTAIN AMOUNT OF SHAKEOUT WILL BE NECESSARY IN THE INDUSTRY. FOR THIS REASON IT IS UNSYMPATHETIC TO CEPAC DEMANDS FOR STRICTER PROTECTION OF THE INDUSTRY. DAVIGNON REPORTEDLY TOLD CEPAC LEADERS THAT A TOTAL EXEMPTION FROM MTN TARIFF CUTS WOULD BE OUT OF THE QUESTION AND POINTED OUT THAT EXEMPTION WOULD BE OF LIMITED VALUE ANYWAY SINCE TARIFFS ARE ALREADY LOW. SIMILARLY, DAVIGNON INDICATED THAT THERE COULD BE NO QUESTION OF REVERSING THE PROCESS OF LIBERALIZING TRADE WITH EFTA COUNTRIES FOR PULP AND PAPER PRODUCTS. THE COMMISSION HAS, HOWEVER, SUGGESTED A TEMPORARY FREEZE IN INCREASES IN EFTA IMPORT CEILINGS FOR 1978 FOR MOST PAPER PRODUCTS.

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11. DAVIGNON ALSO GAVE PRODUCERS LITTLE HOPE THAT THEY MIGHT BE CONSIDERED A PRIORITY SECTOR FOR FUNDING FROM

THE ORTOLI FACILITY -- A PROPOSED INDUSTRIAL DEVELOPMENT
LOAN FACILITY OF ABOUT 1.2 BILLION DOLLARS. COMMISSION
OFFICIALS POINT OUT THAT THE ENERGY, STEEL, TEXTILE, AND
SHIPBUILDING SECTORS HAVE ALREADY BEEN DUBBED FOR PRIORITY
SHARES OF THE ORTOLI PIE AND ONLY CRUMBS WILL BE LEFT
AFTER THEY ARE SERVED.

12. IN THE MEANTIME, DAVIGNON HAS MADE SOME COMMITMENTS
TO CEPAC ON SHORT-TERM MEASURES TO BE TAKEN. HE PROMISED
THE COMMISSION WOULD CONTINUE TO PURSUE THE ANTI-DUMPING
COMPLAINTS AGAINST PRODUCERS OF KRAFT LINER WHO WERE
ALLEGEDLY PRICING THEIR EXPORTS TO THE EC MARKET UNFAIRLY.
HE ALSO PROMISED TO PRESS THE INVESTIGATION OF ANTI-
DUMPING COMPLAINTS AGAINST FOREIGN PULP PRODUCERS, ALTHOUGH
EC PAPER MANUFACTURERS (WITH THE NOTABLE EXCEPTION OF THE
FRENCH, WHO ARE THE MAJOR PULP MANUFACTURERS) ARE
BENEFITING FROM THE LOWER RAW MATERIAL COSTS. DAVIGNON
ALSO PROMISED THAT THE COMMISSION WOULD CONTINUE TO PUSH
FOR COUNCIL ACCEPTANCE OF ITS R&D PROGRAM FOR RECYCLING
OLD PAPER AND OF ITS FORESTRY DIRECTIVE WHICH HAS BEEN
PENDING BEFORE THE COUNCIL SINCE 1970. AT THE MOMENT
COMMISSION INDUSTRIAL POLICY OFFICIALS ESTIMATE THAT ONLY
FOUR MEMBER STATES - FRANCE, ITALY, THE UK AND BELGIUM -
WOULD BE IN FAVOR OF A WIDE-RANGING INDUSTRIAL STRATEGY
FOR THE PULP AND PAPER INDUSTRY. LUXEMBOURG AND THE
NETHERLANDS ARE UNCOMMITTED; IRELAND AND DENMARK
RETICENT; AND THE FRG OPPOSED. HINTON

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